

TOWN OF MANCHESTER, MARYLAND

FINANCIAL STATEMENTS

June 30, 2013

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INDEPENDENT AUDITORS' REPORT

To The Honorable Mayor and
Members of the Town Council
Town of Manchester, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the general fund budgetary comparison of the Town of Manchester, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the general fund budgetary comparison of the Town of Manchester, Maryland as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters


Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Manchester, Maryland's basic financial statements. The Schedules of Revenues and Expenditures – Budget to Actual are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Revenues and Expenditures – Budget and Actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Revenues and Expenditures – Budget and Actual are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Baltimore, Maryland

October 30, 2013

TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

Introduction

As management of the Town of Manchester, Maryland (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013. The MD&A is best understood if read in conjunction with the Town's basic financial statements.

Financial Highlights

- The Town's assets and deferred outflows of financial resources exceeded its liabilities deferred inflows of financial resources at the close of the most recent fiscal year by \$25.9 million (*net position*). Of this amount, \$4.0 million (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total long-term debt decreased by \$20,761 during the current fiscal year from \$240,141 to \$219,380.
- The General Fund on a current financial resource basis, reported revenues in excess of expenditures and other financial sources and uses of \$389,088.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3.0 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains non-required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Town's assets, liabilities and deferred inflows/outflows of financial resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position and condition of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, streets, waste collection and disposal, parks and recreation, municipal buildings, and economic and community development. The business-type activities of the Town include water and sewer operations.

TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

The government-wide financial statements include only the Town of Manchester because the Town has no component unit relationships with any other agency. The government-wide financial statements can be found on pages 15 and 16 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Manchester, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By so doing, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town has only one governmental fund, the General Fund. Information is presented for the General Fund in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

The Town adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16 - 18 of this report. The budgetary comparison statement for the general fund can be found on page 19.

Proprietary funds. The Town maintains *Enterprise funds*, which are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its Water and Sewer operations, which are major funds. The basic proprietary fund financial statements can be found on pages 20 - 22 of this report.

Notes to the financial statements. The Summary of Significant Accounting Policies and notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are part of the basic financial statements and can be found on pages 23 - 37 of this report.

TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

Other information. In addition to the basic financial statements and accompanying notes, this report also presents *supplementary information* which details the Town's General Fund budgetary comparison at a more detailed level and the Enterprise funds' budgetary comparisons. The supplementary information can be found beginning on page 38 of this report.

Government-wide financial analysis. As noted earlier, net position may serve over time as a useful indicator of a government's overall financial condition and position. In the case of the Town, assets and deferred outflows of financial resources exceeded liabilities and deferred inflows of financial resources by \$25.9 million at the close of the current fiscal year. The Town's net position are divided into three categories – net investment in capital assets, restricted net position and unrestricted net position. The largest portion of the Town's net position (68.5%) reflects its investment in capital assets net of depreciation (e.g., land and improvements, buildings, machinery, equipment, infrastructure, and improvements), less any unmatured debt used to acquire those assets. The Town uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending.

Restricted net position represents 16.1% of total net position. Restricted net position are resources that are subject to external restrictions on how they may be used.

Unrestricted net position of the government has a balance of approximately \$4.0 million (15.4% of total net position), which may be used to meet the government's ongoing obligations to citizens and creditors.

The following table summarizes the net position for governmental and business-type activities at June 30, 2013 and 2012:

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | | <u>%</u> |
|----------------------------------|--------------------------------|---------------------|---------------------------------|----------------------|----------------------|----------------------|---------------|
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> | <u>Change</u> |
| Current and other assets | \$ 3,743,921 | \$ 3,388,791 | \$ 4,674,380 | \$ 4,120,318 | \$ 8,418,301 | \$ 7,509,109 | 12 % |
| Capital assets, net | 4,800,290 | 5,082,127 | 13,141,704 | 13,487,955 | 17,941,994 | 18,570,082 | (3) % |
| Total assets | <u>\$ 8,544,211</u> | <u>\$ 8,470,918</u> | <u>\$ 17,816,084</u> | <u>\$ 17,608,273</u> | <u>\$ 26,360,295</u> | <u>\$ 26,079,191</u> | 1 % |
| Long-term liabilities | \$ 25,812 | \$ 18,548 | \$ 217,867 | \$ 235,816 | \$ 243,679 | \$ 254,364 | (4) % |
| Other liabilities | 129,379 | 122,280 | 120,517 | 109,217 | 249,896 | 231,497 | 8 % |
| Total liabilities | <u>\$ 155,191</u> | <u>\$ 140,828</u> | <u>\$ 338,384</u> | <u>\$ 345,033</u> | <u>\$ 493,575</u> | <u>\$ 485,861</u> | 2 % |
| Net position: | | | | | | | |
| Net investment in capital assets | \$ 4,800,290 | \$ 5,082,127 | \$ 12,922,324 | \$ 13,247,814 | \$ 17,722,614 | \$ 18,329,941 | (3) % |
| Restricted | - | - | 4,173,827 | 3,620,335 | 4,173,827 | 3,620,335 | 15 % |
| Unrestricted | 3,588,730 | 3,247,963 | 381,549 | 395,091 | 3,970,279 | 3,643,054 | 9 % |
| Total net position | <u>\$ 8,389,020</u> | <u>\$ 8,330,090</u> | <u>\$ 17,477,700</u> | <u>\$ 17,263,240</u> | <u>\$ 25,866,720</u> | <u>\$ 25,593,330</u> | 0 % |

TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

The following table indicates the changes in net position for governmental and business-type activities at June 30, 2013 and 2012:

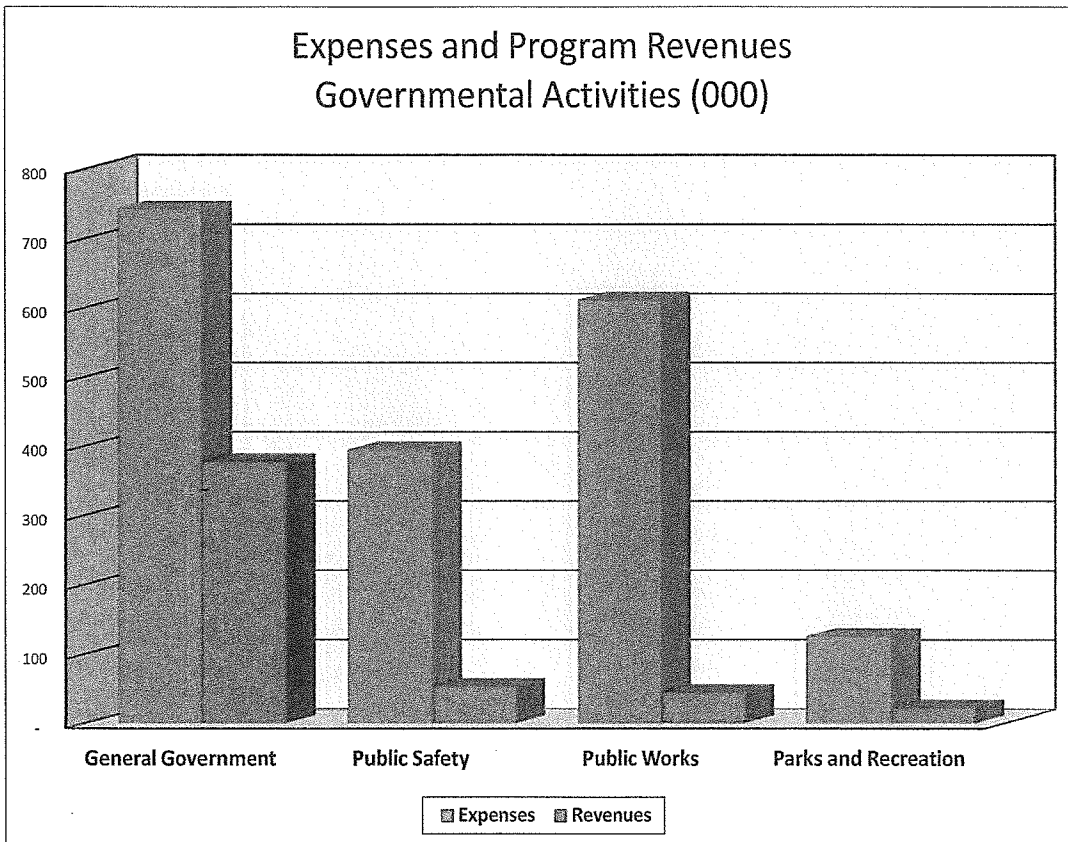
| | Governmental Activities | | Business-Type Activities | | Total | | % |
|--|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|--------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | Change |
| Program Revenues | | | | | | | |
| Charges for services | \$ 187,730 | \$ 196,374 | \$ 1,710,166 | \$ 1,470,895 | \$ 1,897,896 | \$ 1,667,269 | 14 % |
| Operating grants | 306,399 | 334,376 | - | - | 306,399 | 334,376 | (8) % |
| General Revenues | | | | | | | |
| Property taxes | 979,225 | 959,321 | - | - | 979,225 | 959,321 | 2 % |
| Other taxes | 439,387 | 452,824 | - | - | 439,387 | 452,824 | (3) % |
| Investment earnings and other | 16,471 | 22,448 | 14,337 | 104,247 | 30,808 | 126,695 | (76) % |
| Total revenue | <u>1,929,212</u> | <u>1,965,343</u> | <u>1,724,503</u> | <u>1,575,142</u> | <u>3,653,715</u> | <u>3,540,485</u> | 3 % |
| Program Expenses | | | | | | | |
| General government | 741,709 | 731,499 | - | - | 741,709 | 731,499 | 1 % |
| Public safety | 393,366 | 437,571 | - | - | 393,366 | 437,571 | (10) % |
| Public works | 610,426 | 556,476 | - | - | 610,426 | 556,476 | 10 % |
| Parks and recreation | 124,781 | 115,427 | - | - | 124,781 | 115,427 | 0 % |
| Utilities and other enterprise funds | - | - | 1,510,043 | 1,476,628 | 1,510,043 | 1,476,628 | 2 % |
| Total program expenses | <u>1,870,282</u> | <u>1,840,973</u> | <u>1,510,043</u> | <u>1,476,628</u> | <u>3,380,325</u> | <u>3,317,601</u> | 2 % |
| INCREASE IN NET POSITION | 58,930 | 124,370 | 214,460 | 98,514 | 273,390 | 222,884 | 23 % |
| NET POSITION, BEGINNING OF YEAR | <u>8,330,090</u> | <u>8,205,720</u> | <u>17,263,240</u> | <u>17,164,726</u> | <u>25,593,330</u> | <u>25,370,446</u> | 0 % |
| NET POSITION, END OF YEAR | <u>\$ 8,389,020</u> | <u>\$ 8,330,090</u> | <u>\$ 17,477,700</u> | <u>\$ 17,263,240</u> | <u>\$ 25,866,720</u> | <u>\$ 25,593,330</u> | 1 % |

Governmental activities. General revenues for the governmental activities were \$1,435,083, while total expenses, net of charges for services, grants and contributions, were \$1,376,153. The increase in net position for governmental activities was \$58,930, a decrease of \$65,800 over the prior year, for which the majority of can be attributed to the following:

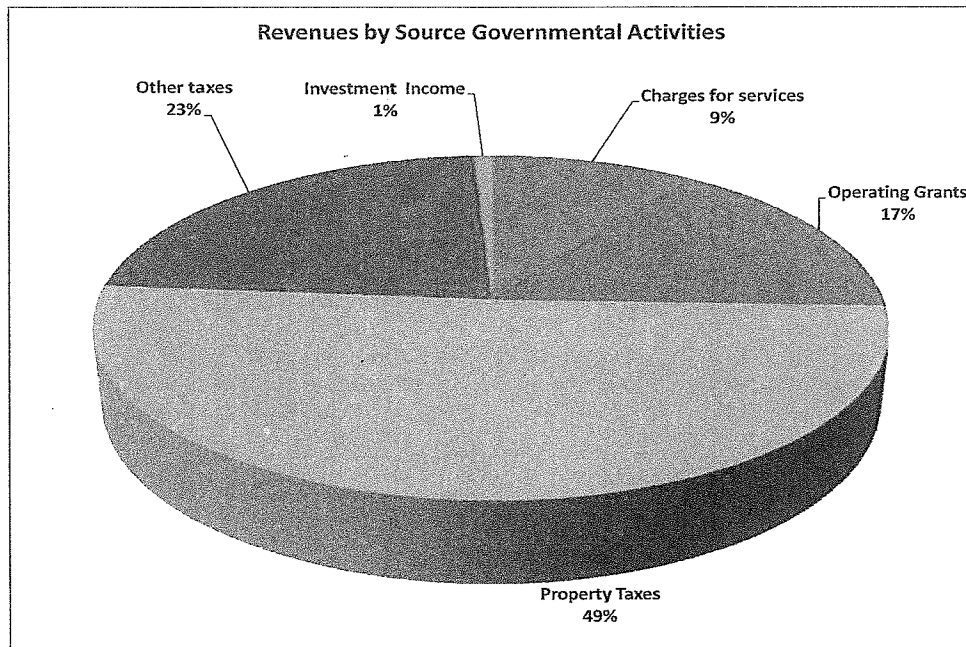
- Operating grants decreased by approximately \$27,980 or 8.4% during the year. This decrease is due to one-time grant funds being awarded in the prior years, and no such grants being applied for by the Town in 2013.
- Public works expense increased by approximately \$53,950 or 9.7% during the year. This increase is due to a combination of increased depreciation expense during the year, and a decrease in street repairs for the year.

TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

The following charts compare the Expenses and Program Revenues of the Town's governmental activities:



TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

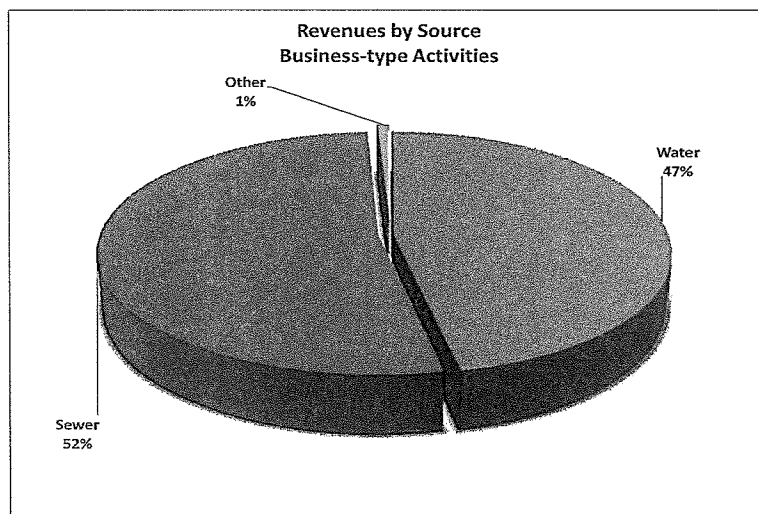
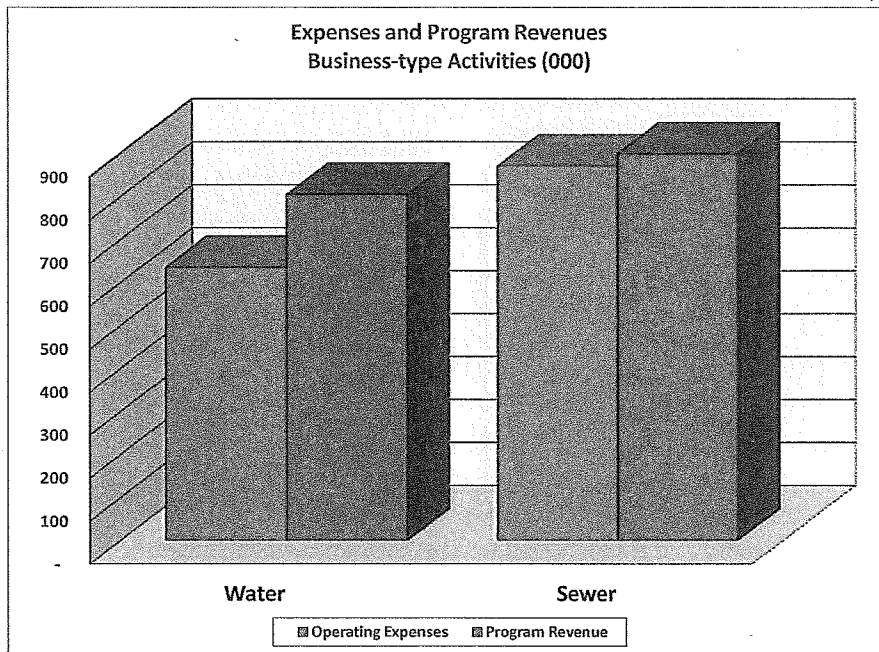


Business-type activities. Business-type activities increased the Town's net position by \$214,460, which was an increase of \$115,946 over the prior year. Key elements of this change are as follows:

- Charges for services for business-type activities increased by \$239,271 or 16.3%. This is due to an increase of homes in the Town and an increase in water and sewer rates.
- Business-type expenses remained stable, increasing by only \$33,415 or 2.3%. This is primarily due to an increase in general and administrative expenses.

TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

The following charts compare the Operating Expenses and Program Revenues of the Town's business-type activities:



TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

Financial Analysis of the Government's Funds

As noted earlier, the Town of Manchester uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental fund. The focus of the Town's *governmental fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the only governmental fund of the Town. At the end of the current fiscal year, the General Fund reported an ending fund balance of \$3.6 million, an increase of \$389,088. Approximately 84.6% of this total amount (\$3.0 million) constitutes *unassigned fund balance*, which represents working capital available to support governmental operating needs and future years' expenditures. The remainder of fund balance is *committed* to indicate that it is not available for new spending because it has already been committed as follows: park service (\$169,989), safety service (\$293,461), and road improvements (\$87,803).

As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Currently, this comparison indicates that the Town has sufficient fund balance to meet the financial needs of the upcoming fiscal year based on the Town's expectations.

The key elements of the \$389,088 increase to the Town's General Fund's fund balance were addressed in the discussion of the Town's governmental activities. However, the increase in net position of governmental activities differs due to the adjustments required by GASB No. 34. These adjustments are shown in detail on page 18 of this report.

Proprietary funds. The Town's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the two funds at the end of the year amounted to \$381,549. This amount consists of a \$214,834 deficit for the Water Fund and a \$596,383 surplus for the Sewer Fund. The total net position was increased by \$214,460. Other factors concerning these funds' finances have been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The Town made no amendments or adjustments during the year to the General Fund original budget. Revenues were higher than budgetary estimates by \$176,177 and expenditures were lower by \$399,628. A detailed analysis of the budget and actual revenues and expenditures for the General Fund can be found on page 19 of this report.

TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2013 amounts to \$17.9 million. This investment in capital assets includes land, buildings, machinery and equipment (including vehicles) and infrastructure (including park facilities, roads, water system, and sewer system. The total decrease in the Town's investment in capital assets for the current fiscal year was 3.4% (5.5% decrease for governmental activities and a 2.6% decrease for business-type activities).

Town of Manchester's Capital Assets
(Net of Depreciation)

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Land | \$ 590,050 | \$ 590,050 | \$ 1,551,289 | \$ 1,551,289 | \$ 2,141,339 | \$ 2,141,339 |
| Buildings and improvements | 404,174 | 419,237 | 28,456 | 7,365 | 432,630 | 426,602 |
| Other improvements | 66,700 | 77,269 | - | - | 66,700 | 77,269 |
| Machinery and equipment | 67,226 | 71,575 | 412,557 | 414,877 | 479,783 | 486,452 |
| Furniture and fixtures | 7,937 | 10,016 | - | - | 7,937 | 10,016 |
| Vehicles | 121,441 | 125,338 | 25,578 | 45,147 | 147,019 | 170,485 |
| Infrastructure | 3,542,762 | 3,788,642 | - | - | 3,542,762 | 3,788,642 |
| Water and sewer systems | - | - | 11,123,824 | 11,469,277 | 11,123,824 | 11,469,277 |
| Total | \$ 4,800,290 | \$ 5,082,127 | \$ 13,141,704 | \$ 13,487,955 | \$ 17,941,994 | \$ 18,570,082 |

Major capital additions for the fiscal year ended June 30, 2013 included the following:

- Pump impellers were purchased for \$16,030
- Drain equipment was purchased for \$54,145
- A wet well was purchased for \$16,625
- A pick-up truck was purchased for \$44,785.
- A press room was purchased for \$13,842
- Water meters were purchased for \$24,565

Additional information on the Town's capital assets can be found in Note 6, pages 34 and 35 of this report.

Debt Administration. At the end of the current fiscal year, the Town had total debt outstanding of \$219,380, all of which is recorded in the business-type activities (Water Fund) and is comprised of a note payable to the Maryland Department of the Environment. Additional information on the Town's long-term debt can be found in Note 7 on page 36 of this report.

TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

Economic Factors and Next Year's Budgets and Rates

- The Town anticipates that 15 new residential homes will be constructed within the Town during fiscal year 2014.
- The employment situation in the Town, with respect to no lay-offs or furloughs has been stable and is expected to continue.
- Water and sewer rates will remain unchanged for 2014.
- Major capital asset additions planned for fiscal year 2014 include street resurfacing and repairs, installation of pavilion cameras, purchases of stabilization tanks, the painting of the Park Avenue tank, and a water exploration project.

All of these factors were considered in preparing the Town's budget for fiscal 2014.

Requests for Information

This financial report is designed to provide a general overview of the Town of Manchester's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Department of Finance, Town of Manchester, P.O. Box 830, Manchester, Maryland, 21102, or by telephone at (410) 239-3200.

FINANCIAL STATEMENTS

TOWN OF MANCHESTER, MARYLAND
STATEMENT OF NET POSITION
June 30, 2013

| | Primary Government | | |
|---------------------------------------|--------------------------------|---------------------------------|---------------------------------|
| | Governmental | Business-Type | |
| | Activities | Activities | Total |
| ASSETS | | | |
| Cash and temporary investments | \$ 3,789,017 | \$ 4,173,827 | \$ 7,962,844 |
| Receivables, current | 151,974 | 283,489 | 435,463 |
| Internal balances, net | (197,070) | 197,070 | - |
| Inventory | - | 19,994 | 19,994 |
| Capital assets, not being depreciated | 590,050 | 1,551,289 | 2,141,339 |
| Capital assets being depreciated, net | <u>4,210,240</u> | <u>11,590,415</u> | <u>15,800,655</u> |
| Total assets | <u>8,544,211</u> | <u>17,816,084</u> | <u>26,360,295</u> |
| LIABILITIES | | | |
| Accounts payable | 47,359 | 71,105 | 118,464 |
| Accrued liabilities | 25,643 | 7,748 | 33,391 |
| Deposits | 28,186 | - | 28,186 |
| Compensated absences payable: | | | |
| Due within one year | 28,191 | 20,695 | 48,886 |
| Due in more than one year | 25,812 | 19,456 | 45,268 |
| Non-current liabilities: | | | |
| Due within one year | - | 20,969 | 20,969 |
| Due in more than one year | <u>-</u> | <u>198,411</u> | <u>198,411</u> |
| Total liabilities | <u>155,191</u> | <u>338,384</u> | <u>493,575</u> |
| NET POSITION | | | |
| Net investment in capital assets | 4,800,290 | 12,922,324 | 17,722,614 |
| Restricted for capital projects | - | 4,173,827 | 4,173,827 |
| Unrestricted | <u>3,588,730</u> | <u>381,549</u> | <u>3,970,279</u> |
| TOTAL NET POSITION | <u><u>\$ 8,389,020</u></u> | <u><u>\$ 17,477,700</u></u> | <u><u>\$ 25,866,720</u></u> |

The accompanying notes are an integral part of the financial statements.

TOWN OF MANCHESTER, MARYLAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Positions Primary Government | | |
|---|---------------------|----------------------|--|--|-----------------------------|----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| | | | | | | |
| Governmental activities: | | | | | | |
| General government | \$ 741,709 | \$ 103,787 | \$ 272,746 | \$ (365,176) | \$ - | \$ (365,176) |
| Public safety | 393,366 | 22,280 | 29,973 | (341,113) | - | (341,113) |
| Public works | 610,426 | 40,108 | 3,680 | (566,638) | - | (566,638) |
| Recreation | 124,781 | 21,555 | - | (103,226) | - | (103,226) |
| Total governmental activities | 1,870,282 | 187,730 | 306,399 | (1,376,153) | - | (1,376,153) |
| Business-type activities: | | | | | | |
| Water | 637,896 | 805,837 | - | - | 167,941 | 167,941 |
| Sewer | 872,147 | 904,329 | - | - | 32,182 | 32,182 |
| Total business-type activities | 1,510,043 | 1,710,166 | - | - | 200,123 | 200,123 |
| TOTAL GOVERNMENTAL/ BUSINESS-TYPE ACTIVITIES | \$ 3,380,325 | \$ 1,897,896 | \$ 306,399 | (1,376,153) | 200,123 | (1,176,030) |
| General revenues | | | | | | |
| Taxes: | | | | | | |
| Property taxes | | | | 979,225 | - | 979,225 |
| Income taxes | | | | 427,397 | - | 427,397 |
| Other local taxes | | | | 11,990 | - | 11,990 |
| Investment income | | | | 9,379 | 14,337 | 23,716 |
| Other revenue | | | | 7,092 | - | 7,092 |
| Total general revenues | | | | 1,435,083 | 14,337 | 1,449,420 |
| CHANGE IN NET POSITION | | | | 58,930 | 214,460 | 273,390 |
| NET POSITION, BEGINNING OF YEAR | | | | 8,330,090 | 17,263,240 | 25,593,330 |
| NET POSITION, END OF YEAR | | | | \$ 8,389,020 | \$ 17,477,700 | \$ 25,866,720 |

The accompanying notes are an integral part of the financial statements.

TOWN OF MANCHESTER, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

| | <u>General</u> |
|---|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 3,789,017 |
| Receivables, current | 151,974 |
| Due from other funds | <u>406,559</u> |
| TOTAL ASSETS | <u><u>\$ 4,347,550</u></u> |
| LIABILITIES | |
| Accounts payable | \$ 47,359 |
| Due to other funds | 603,629 |
| Accrued liabilities | 25,643 |
| Deposits | 28,186 |
| Unavailable revenue | <u>61,516</u> |
| Total liabilities | <u>766,333</u> |
| FUND BALANCE | |
| Committed to: | |
| Park service | 169,989 |
| Safety service | 293,461 |
| Road improvements | 87,803 |
| Unassigned | <u>3,029,964</u> |
| Total fund balance | <u>3,581,217</u> |
| Adjustments for the Statement of Net Position: | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds. | 4,800,290 |
| Other long-term assets are not available to pay current-period expenditures and therefore are offset by unavailable revenue in the governmental funds. (Note 4) | 61,516 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. | |
| This amount represents compensated absences. | <u>(54,003)</u> |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | <u><u>\$ 8,389,020</u></u> |

The accompanying notes are an integral part of the financial statements.

TOWN OF MANCHESTER, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2013

| | <u>General</u> |
|--|----------------------------|
| REVENUES | |
| Local property taxes | \$ 979,225 |
| Local income taxes | 469,607 |
| State shared taxes | 52,098 |
| Licenses and permits | 34,323 |
| Intergovernmental | 306,399 |
| Fines and forfeitures | 580 |
| Service charges | 34,100 |
| Interest | 9,379 |
| Rents and concessions | 78,619 |
| Miscellaneous | <u>21,892</u> |
| Total revenues | <u>1,986,222</u> |
| EXPENDITURES | |
| General government | 257,531 |
| Public safety | 374,248 |
| Public works | 599,455 |
| Recreation | 112,768 |
| Miscellaneous | <u>253,132</u> |
| Total expenditures | <u>1,597,134</u> |
| NET CHANGE IN FUND BALANCE | 389,088 |
| FUND BALANCE, BEGINNING OF YEAR | <u>3,192,129</u> |
| FUND BALANCE, END OF YEAR | <u><u>\$ 3,581,217</u></u> |

The accompanying notes are an integral part of the financial statements.

TOWN OF MANCHESTER, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
Year Ended June 30, 2013

Net change in fund balances - governmental funds (Page 17) \$ 389,088

Amounts reported for governmental activities in the
Statement of Activities are different because:

Governmental funds report capital outlays as
expenditures. However, in the Statement of Activities, the
costs of capital assets are allocated over their useful
lives and reported as a depreciation expense.

| | | | |
|---|----|------------------|-----------|
| Capital outlay | \$ | 132,277 | |
| Depreciation expense | | <u>(411,744)</u> | |
| Capital outlay exceeded depreciation expense in the current period by: | | | (279,467) |

| | | | |
|--|--|--|---------|
| Loss on disposals of capital assets are reported as an expense in the statement of activities | | | (2,370) |
|--|--|--|---------|

| | | | |
|---|--|--|----------|
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds. | | | |
| Decrease in unavailable local income tax revenue | | | (42,210) |

| | | | |
|---|--|--|----------------|
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. | | | |
| Change in compensated absences | | | <u>(6,111)</u> |

| | | | |
|--|--|--|------------------|
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (Page 15) | | | \$ <u>58,930</u> |
|--|--|--|------------------|

The accompanying notes are an integral part of the financial statements.

TOWN OF MANCHESTER, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS)
GENERAL FUND
Year Ended June 30, 2013

| | | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|------------------|------------------|---------------------|---|
| | Original Budget | Final Budget | Budgetary Basis | |
| REVENUES | | | | |
| Local property taxes | \$ 968,613 | \$ 968,613 | \$ 979,225 | \$ 10,612 |
| Local income taxes | 390,000 | 390,000 | 469,607 | 79,607 |
| State shared taxes | 56,822 | 56,822 | 52,098 | (4,724) |
| Licenses and permits | 8,700 | 8,700 | 34,323 | 25,623 |
| Intergovernmental | 38,796 | 38,796 | 42,973 | 4,177 |
| Town/County Agreement | 263,426 | 263,426 | 263,426 | - |
| Fine and forfeitures | - | - | 580 | 580 |
| Service charges | 8,250 | 8,250 | 34,100 | 25,850 |
| Interest | 8,500 | 8,500 | 9,379 | 879 |
| Rents and concessions | 71,800 | 71,800 | 78,619 | 6,819 |
| Miscellaneous | 1,000 | 1,000 | 21,892 | 20,892 |
| Total revenues | <u>1,815,907</u> | <u>1,815,907</u> | <u>1,986,222</u> | <u>170,315</u> |
| EXPENDITURES | | | | |
| General government | 301,980 | 301,980 | 257,531 | 44,449 |
| Public safety | 421,071 | 421,071 | 374,248 | 46,823 |
| Public works | 842,735 | 842,735 | 599,455 | 243,280 |
| Recreation | 145,571 | 145,571 | 112,768 | 32,803 |
| Miscellaneous | 285,405 | 285,405 | 253,132 | 32,273 |
| Total expenditures | <u>1,996,762</u> | <u>1,996,762</u> | <u>1,597,134</u> | <u>399,628</u> |
| Excess (deficiency) of expenditures over revenues before other financing sources | (180,855) | (180,855) | 389,088 | 569,943 |
| OTHER FINANCING SOURCES | | | | |
| Use of prior year fund balance | <u>180,855</u> | <u>180,855</u> | - | (180,855) |
| NET CHANGE IN FUND BALANCE | <u>\$ -</u> | <u>\$ -</u> | 389,088 | <u>\$ 389,088</u> |
| FUND BALANCE, BEGINNING OF YEAR | | | <u>3,192,129</u> | |
| FUND BALANCE, END OF YEAR | | | <u>\$ 3,581,217</u> | |

The accompanying notes are an integral part of the financial statements.

TOWN OF MANCHESTER, MARYLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

| | Business-Type Activities - Enterprise Funds | | |
|---|--|-----------------------------|-----------------------------|
| | Water | Sewer | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 2,206,648 | \$ 1,967,179 | \$ 4,173,827 |
| Receivables, current | 119,995 | 163,494 | 283,489 |
| Due from other funds | 44,222 | 598,416 | 642,638 |
| Inventory | 19,994 | - | 19,994 |
| Capital assets, net of accumulated depreciation | <u>5,241,766</u> | <u>7,899,938</u> | <u>13,141,704</u> |
| TOTAL ASSETS | <u><u>\$ 7,632,625</u></u> | <u><u>\$ 10,629,027</u></u> | <u><u>\$ 18,261,652</u></u> |
| LIABILITIES | | | |
| Accounts payable | \$ 24,474 | \$ 46,631 | \$ 71,105 |
| Due to other funds | 351,726 | 93,842 | 445,568 |
| Accrued expenses | 3,787 | 3,961 | 7,748 |
| Compensated absences: | | | |
| Due within one year | 9,827 | 10,868 | 20,695 |
| Due in more than one year | 9,231 | 10,225 | 19,456 |
| Non-current liabilities: | | | |
| Due within one year | 20,969 | - | 20,969 |
| Due in more than one year | <u>198,411</u> | <u>-</u> | <u>198,411</u> |
| Total liabilities | <u>618,425</u> | <u>165,527</u> | <u>783,952</u> |
| NET POSITON | | | |
| Net investment in capital assets | 5,022,386 | 7,899,938 | 12,922,324 |
| Restricted for capital projects | 2,206,648 | 1,967,179 | 4,173,827 |
| Unrestricted | <u>(214,834)</u> | <u>596,383</u> | <u>381,549</u> |
| Total net position | <u>7,014,200</u> | <u>10,463,500</u> | <u>17,477,700</u> |
| TOTAL LIABILITIES AND NET POSITION | <u><u>\$ 7,632,625</u></u> | <u><u>\$ 10,629,027</u></u> | <u><u>\$ 18,261,652</u></u> |

The accompanying notes are an integral part of the financial statements.

TOWN OF MANCHESTER, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2013

| | Business-Type Activities - Enterprise Funds | | |
|--|---|----------------------|----------------------|
| | Water | Sewer | Total |
| OPERATING REVENUES | | | |
| Charges for services | \$ 294,614 | \$ 470,850 | \$ 765,464 |
| Unit charges | 123,421 | 143,582 | 267,003 |
| Excise taxes | 132,600 | 117,000 | 249,600 |
| Area service charges | 155,000 | 155,000 | 310,000 |
| Miscellaneous | 100,202 | 17,897 | 118,099 |
| | <u>805,837</u> | <u>904,329</u> | <u>1,710,166</u> |
| OPERATING EXPENSES | | | |
| Salaries and fringe benefits | 279,758 | 271,106 | 550,864 |
| Operating expenses | 173,839 | 287,745 | 461,584 |
| Depreciation expense | 182,002 | 313,296 | 495,298 |
| | <u>635,599</u> | <u>872,147</u> | <u>1,507,746</u> |
| OPERATING INCOME | <u>170,238</u> | <u>32,182</u> | <u>202,420</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Interest income | 7,338 | 6,999 | 14,337 |
| Interest expense | (2,297) | - | (2,297) |
| | <u>5,041</u> | <u>6,999</u> | <u>12,040</u> |
| CHANGE IN NET POSITION | 175,279 | 39,181 | 214,460 |
| TOTAL NET POSITION, BEGINNING OF YEAR | <u>6,838,921</u> | <u>10,424,319</u> | <u>17,263,240</u> |
| TOTAL NET POSITION, END OF YEAR | <u>\$ 7,014,200</u> | <u>\$ 10,463,500</u> | <u>\$ 17,477,700</u> |

The accompanying notes are an integral part of the financial statements.

TOWN OF MANCHESTER, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2013

| | Business-Type Activities - Enterprise Funds | | |
|---|--|---------------------|---------------------|
| | Water | Sewer | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from customers | \$ 801,259 | \$ 893,076 | \$ 1,694,335 |
| Cash paid to suppliers for goods and services | (173,094) | (265,909) | (439,003) |
| Cash paid to employees for services | (276,911) | (267,161) | (544,072) |
| Net cash provided by operating activities | 351,254 | 360,006 | 711,260 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest income | 7,338 | 6,999 | 14,337 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Acquisition and construction of capital assets | (76,697) | (72,350) | (149,047) |
| Principal paid on bond and notes maturities | (20,761) | - | (20,761) |
| Interest paid | (2,297) | - | (2,297) |
| Net cash used in capital and related financing activities | (99,755) | (72,350) | (172,105) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 258,837 | 294,655 | 553,492 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 1,947,811 | 1,672,524 | 3,620,335 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 2,206,648</u> | <u>\$ 1,967,179</u> | <u>\$ 4,173,827</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATIONS | | | |
| Operating income | \$ 170,238 | \$ 32,182 | \$ 202,420 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 182,002 | 313,296 | 495,298 |
| Effect of changes in operating assets and liabilities: | | | |
| Accounts receivable | (1,963) | (10,531) | (12,494) |
| Interfund receivables | (2,615) | (722) | (3,337) |
| Accounts payable | 1,234 | 19,221 | 20,455 |
| Interfund payables | (489) | 2,615 | 2,126 |
| Accrued expenses | 211 | 144 | 355 |
| Compensated absences | 2,636 | 3,801 | 6,437 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 351,254</u> | <u>\$ 360,006</u> | <u>\$ 711,260</u> |

The accompanying notes are an integral part of the financial statements.

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Manchester, Maryland (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting principles are described below. These policies should be recognized by the reader as integral to the preparation and use of the accompanying general purpose financial statements.

Reporting Entity

Town of Manchester, Maryland was incorporated in March of 1834 under the provisions of the State of Maryland Public Local Law, Article 17, Section 631, Chapter 532 as amended by Section 1, 1949, Chapter 583. The Town operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety, highways and streets, water and sewer, culture and recreation, public improvements, planning and zoning, and general administrative services.

For financial reporting purposes, in conformance with accounting principles generally accepted in the United States of America, the reporting entity includes the Mayor and Town Council of Manchester, which represents the primary government.

Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Changes in Net Position report information on all of the non-fiduciary activities of the Town. Eliminations have been made to remove the effect of interfund activity from these statements. Governmental activities, which are supported by taxes and intergovernmental activities, are reported separately from business-type activities that are supported by customer service charges.

The Statement of Activities presents a comparison between direct expenses and program revenues for each of the business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those specifically associated with a program or function. Program revenues include charges to customers and grants and contributions restricted to the capital or operational requirements of particular programs. Revenues that are not classified as program revenues, such as taxes, are reported as general revenues.

Separate financial statements are shown for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year of levy.

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Grants are recognized as revenue when all eligibility requirements are met. All governmental and business-type activities and proprietary funds of the Town follow GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance* contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements which incorporates into GASB authoritative literature certain accounting and financial reporting guidance previously included in FASB, AICPA, and Accounting Principles Board Opinions (APB), guidance issued before November 30, 1989. The Town also has the option to follow subsequent private-sector guidance for its business-type activities and enterprise funds with certain limitations, but has elected not to do so.

Governmental fund statements are presented using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collected within 60 days of year-end. Expenditures are recorded when the related liability is incurred as under accrual accounting. Expenditures for compensated absences are recorded when the payments are due.

Those revenues susceptible to accrual are property taxes, taxes collected by the state and county on behalf of the Town, franchise taxes, special assessments, revenue from other agencies, interest revenue, and charges for services. Fines and forfeitures, licenses, permits, penalties and interest (on property taxes) and other revenues become measurable and available when cash is received by the Town and are recognized as revenue at that time.

The Town has one major governmental fund: the General Fund. The General Fund is used to account for all activities of the government not accounted for in some other fund. It accounts for the normal recurring activities of the Town such as police, public works, parks and recreation, and general government, etc. These activities are financed primarily by property taxes, other taxes, service charges, and grants from other governmental units.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds distinguish operating revenues and expenses from non-operating items.

Operating revenues and expenses result from providing services and delivering goods in connection with the fund's principal ongoing operations such as charges to customers for sales and services and expenses such as salaries, product costs, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town has two major proprietary funds. The Water Fund operates the water treatment plants and distribution system. The Sewer Fund operates the sewage treatment plant, pumping stations and collection system.

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The effect of interfund activity has been eliminated from the government-wide financial statements except for charges between the Water and Sewer Funds and the General Fund for direct services. Elimination of these charges would distort the direct costs and program revenues reported for the various services. Amounts reported as program revenues include charges to customers for goods and services, operating grants and contributions and capital grants. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Equity in Pooled Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months at the time of purchase. Cash deposits of the Town are made in accordance with the Annotated Code of Maryland (the Code), which requires depositories to give security in the form of collateral as provided for in the Code, for the safekeeping and forthcoming, when required, of these deposits.

Excess funds are also permitted to be invested either in bonds or other obligations for the payment of principal and interest of which the full faith and credit of the United States of America are pledged, or in obligations of Federal government agencies issued pursuant to acts of Congress, or in the local government investment pool created by the State of Maryland.

For the purposes of the Statement of Cash Flows, the Town considers all highly liquid investments with an original maturity date of three months or less at the time of purchase to be cash equivalents. Cash resources of each of the individual funds, except cash required to be segregated by law or policy, are combined to form a pool of cash and investments to maximize interest earnings. Income from pooled investments are allocated to funds on the basis of their equity in pooled cash.

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Property taxes are reported at their estimated collectible value. The following summarizes the property tax calendar:

| | <u>Real</u> | <u>Personal and Corporate</u> |
|--|------------------|-----------------------------------|
| Assessment Roll Validated: | December 31 | January 1 |
| Tax Rate Ordinance Approved: | June 30 | June 30 |
| Beginning of fiscal year for which taxes have been levied: | July 1 | July 1 |
| Tax bills Rendered and Due: | July 1 | On State Notification |
| Owner-occupied Residential: | July 1 and Jan 1 | On State Notification |
| Property Taxes Receivable: | | |
| Delinquent | Oct. 1, Feb. 1 | After 30 days |
| Terms | 60 days | 30 days |
| Delinquent Interest Rate | 18% | 18% |

Information presented is for "full year" levy. "Half year" levy dates are each six months later, and relate to new construction in the first six months of the calendar year. A lien is attached to the property on the billing date, becomes delinquent October 1, and is sold at tax sale by the end of 18 months.

Allowances for uncollectible accounts, if any, are maintained on all types of receivables that historically experience bad debt. Receivables are shown net of such an allowance for uncollectibles for all funds. Real property taxes are generally fully collectible. Receivables shown in the Water and Sewer Funds represents amounts due from customers for charges for service.

Inventory

Inventory is stated at the lower of cost or market on the FIFO basis and consists of general supplies and equipment and supplies used in the operation of the municipal water system.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure such as roads, storm drains, and pipe systems are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets, which individually cost more than \$2,500 and have an estimated useful life in excess of three years. Land is not depreciated as it is assumed to have an indefinite useful life. Construction in progress is not depreciated until the asset is placed into service. In the enterprise funds, fixed assets are recorded at cost. The Water and Sewer Funds depreciate assets using the straight-line method of depreciation.

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or extend asset lives are not capitalized.

Expenditures for major assets and improvements are capitalized as projects are constructed. Interest on debt during the construction period is capitalized. The amount of interest to be capitalized is offset by interest income earned on invested unused debt proceeds over the same period. Exhaustible capital assets of the governmental and business-type activities and proprietary funds are depreciated, which is charged as an expense against their operations. Accumulated depreciation is reported in the Statement of Net Position. Depreciation has been provided over the estimated useful lives using the straight-line method.

Estimated useful lives are generally as follows:

| | |
|----------------------------|-------------|
| Water and sewer systems | 40-50 years |
| Vehicles | 5-10 years |
| Machinery and equipment | 3-15 years |
| Buildings and improvements | 15-40 years |
| Infrastructure | 20-50 years |
| Other improvements | 7-20 years |
| Furniture and fixtures | 5-10 years |

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until the future period. At June 30, 2013, the Town had no items that should be recognized as deferred outflows of resources.

Long-Term Obligations

In the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities, or proprietary fund Statement of Net Position.

Compensated Absences

Vacation benefits are earned by employees of the Town based upon time in service. The rights to such benefits are vested immediately. A maximum of 240 hours of accumulated vacation leave may be carried forward into the next year. Employees accumulate comp-time for overtime hours worked at 1.5 hours per each hour of overtime. A maximum of 80 hours of accumulated comp-time may be carried forward into the next year. Upon termination of employment, the Town pays the employee for accumulated vacation leave up to 240 hours and accumulated comp-time up to 80 hours.

The Town records vacation leave and comp-time benefits as earned. The vested benefits as of year-end are included as “compensated absences” on the Statement of Net Position.

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until the future period. For government-mandated and voluntary non-exchange transactions, a deferred inflow is reported when resources are received before time requirements are met. At June 30, 2013, the Town had no items that should be recognized as deferred inflows of resources.

Net Position/Fund Equity

The government-wide financial statements utilize a net position presentation. The proprietary funds use a balance sheet approach, but utilize the same net position categorization as the government-wide statements. Net Position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net investment in capital assets* - This category groups all capital assets including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted net position* - This category presents net position with external restrictions imposed by creditors, grantors, or laws and regulations of other governments.
- *Unrestricted net position* - This category presents the net position of the Town, not restricted for any purpose.

In the fund financial statements, governmental funds report classifications of fund balance in a hierarchy based primarily on the extent of constraints on the related funding sources. As of June 30, 2013, fund balances of the governmental funds are classified as follows:

Nonspendable

Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact (e.g. inventory). There were no nonspendable fund balances at June 30, 2013.

Restricted

Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed

Amounts that can be used only for specific purposes determined by a formal action of the Town Council. The Town Council is the highest level of decision-making authority for the Town. Commitments may be established, modified, or rescinded only through ordinances approved by the Town Council.

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position/Fund Equity (Continued)

Assigned

Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Town's adopted policy, assignment of funds can be recommended by the Director of Finance but all assignments must be approved by the Town Council.

Unassigned

All other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted funds are available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned funds are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless Town Council or the Director of Finance has provided otherwise in its commitment or assignment actions.

Stewardship, Compliance, and Accountability

Budgetary Information

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the Mayor submits to the Town Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted after two weeks' notice is given in a local newspaper.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. Any transfer of funds between major appropriations for different purposes must be approved by the Council by a three-fifths (3/5) vote before becoming effective.

The Town's budget for the Water and Sewer funds is not legally adopted, and is for management's use only.

5. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP) except for the following two items if applicable:
 - 1) Capital contributions are not budgeted and are not included in the non-GAAP budgetary statements
 - 2) The use of prior year fund balance is budgeted for and is included in the non-GAAP budgetary statements.

Budgetary comparisons presented for the General Fund are on this non-GAAP basis

6. Appropriations which are not expended lapse at the end of the fiscal year.

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stewardship, Compliance, and Accountability (Continued)

Budgeted amounts are adopted on a non-GAAP basis and are shown as originally adopted by the Town Council for the General Fund. Expenditures may not legally exceed appropriations at the fund level. The General Fund did not exceed their appropriated expenditure budget at the fund level for the year ended June 30, 2013. There were no reconciling differences between GAAP and non-GAAP budgetary basis presentations for the year ended June 30, 2013.

Governmental Accounting Standards Board (GASB) Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and defined the residual of assets and deferred outflows less liabilities and deferred inflows as net position. The Board has implemented the effects of this Statement for the reporting period ending June 30, 2013. The effect of this Statement on the Town was a change in the format of the entity wide and proprietary fund statements to include the concept of net position.

Pending Pronouncements

GASB routinely issues standards that will become effective in future years. The following Standards that have been issued that management has determined may have an impact on future financial statements of the Town. Management is currently evaluating the specific impact of these Standards.

Statement No. 65, *Items Previously Reported as Assets and Liabilities* - This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* – The objective of this Statement is to improve accounting and financial reporting by state and local government employers for the pension in which they are involved. This Statement will become effective for the reporting period ending June 30, 2015.

NOTE 2 – DEPOSITS AND INVESTMENTS

Reconciliation of cash and temporary investments as shown on the Statement of Net Positions is as follows:

| | |
|---|--------------------------------|
| Carrying amount of deposits | \$ 7,918,739 |
| Carrying amounts of temporary investments | <u>44,105</u> |
| Total cash, cash equivalents and temporary investments per Statement of Net Position | <u><u>\$ 7,962,844</u></u> |

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits

At year end, the carrying amount of the Town's deposits (including cash on hand of \$250) was \$7,918,739 and the bank balance was \$7,938,413. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town follows the State mandated deposit policy for custodial credit risk requiring all deposits to be collateralized for amounts in excess of FDIC limits. At year end, the Town was in compliance with the State's deposit policy, and all deposits in excess of FDIC limits were covered by collateral held by the Bank's trust department in the name of the Town.

Investments

At June 30, 2013, the Town's investments were pooled in the State-created Maryland Local Government Investment Pool (MLGIP), a money market fund. The fair value of this investment was \$44,105 with a maturity of less than one year.

Investment rate risk

Fair value fluctuates with interest, and increasing interest rates could cause fair value to decline below original cost. To limit the Town's exposure to fair value losses arising from increasing interest rates, the Town's investment policy limits the term of investment maturities between thirty days to one year in order to remain sufficiently liquid to enable the Town to meet all operating requirements which might be reasonably anticipated. Town management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the Town from having to sell investments below original cost for that purpose.

The investments at June 30, 2013, met the Town's investment policy as of that date. Investment income was comprised entirely of interest and dividends amounting to \$23,716 for the year ended June 30, 2013.

Credit Risk

The investment policy of the Town permits investments in the following types of investments as authorized by the State of Maryland: direct U.S. obligations, U.S. agency obligations, repurchase agreements, bankers' acceptances, municipal securities, commercial paper, money market mutual funds and the MLGIP. The MLGIP is established under the Annotated Code of Maryland and is under the administration of the State Treasurer. It is rated AAAM by Standard & Poor's, their highest rating for money market mutual funds. The MLGIP seeks to maintain a constant value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value.

Custodial Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Town will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. The investments of the Town were not exposed to custodial risk at June 30, 2013.

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Foreign Currency Risk

The Town's investment policy does not allow for investments denominated in foreign currencies and the Town was in compliance with this policy during the year ended June 30, 2013.

NOTE 3 – RECEIVABLES

Property Taxes Receivable

Property taxes are reported at their estimated collectible value. The Town's real property tax rate was \$0.216 per \$100 of assessed value. The Town's tax rate for personal and corporate property was \$0.46 per \$100 of assessed value. As of June 30, 2013, property taxes receivable amounted to \$735.

Summary of Receivables

Receivables as of year-end for the government's major funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

| | Governmental Activities | Business-Type Activities | | | Total |
|----------------------------|----------------------------|--------------------------|-------------------|-----------------------------------|-------------------|
| | | Water | Sewer | Business-Type Activities Total | |
| Receivables | | | | | |
| Taxes | \$ 51,996 | \$ - | \$ - | \$ - | \$ 51,996 |
| Accounts | - | 119,995 | 163,494 | 283,489 | 283,489 |
| Due from other governments | 99,978 | - | - | - | 99,978 |
| Net receivables | <u>\$ 151,974</u> | <u>\$ 119,995</u> | <u>\$ 163,494</u> | <u>\$ 283,489</u> | <u>\$ 435,463</u> |

NOTE 4 – UNEARNED REVENUE

Governmental funds report unavailable revenue in relation to receivables for revenues that are not considered to be available to liquidate liabilities of the current period such as property taxes not collected within 60 days after fiscal year-end. Unavailable revenue also includes rental and program advances, franchise fees and similar prepayments received by the Town, grant revenue received prior to the incurrence of qualifying expenditures, and governmental fund nonexchange contributions which did not meet the GASB Statement No. 33 time restriction. Unavailable revenue for the General Fund at June 30, 2013 consisted solely of revenue deemed unavailable in the amount of \$61,516.

NOTE 5 – INTERFUND BALANCES

The composition of interfund balances as of June 30, 2013 is as follows:

| | Due From Other Funds | Due To Other Funds |
|--------------|-------------------------|-----------------------|
| General fund | \$ 406,559 | \$ 603,629 |
| Water fund | 44,222 | 351,726 |
| Sewer fund | 598,416 | 93,842 |
| Total | <u>\$ 1,049,197</u> | <u>\$ 1,049,197</u> |

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 5 – INTERFUND BALANCES (CONTINUED)

These interfund balances are presented in the accompanying financial statements as follows:

| | <u>Due From</u> | <u>Due To</u> |
|---|---------------------|---------------------|
| Balance Sheet - Governmental Funds (page 16) | \$ 406,559 | \$ 603,629 |
| Statement of Net Position - Proprietary Funds (page 20) | <u>642,638</u> | <u>445,568</u> |
| Total | <u>\$ 1,049,197</u> | <u>\$ 1,049,197</u> |

NOTE 6 – CHANGES IN CAPITAL ASSETS

Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Transfers and Deletions</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|------------------------------------|-----------------------|
| Governmental activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 590,050 | \$ - | \$ - | \$ 590,050 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 771,454 | 11,534 | - | 782,988 |
| Other improvements | 229,475 | - | - | 229,475 |
| Machinery and equipment | 352,996 | 21,813 | (11,852) | 362,957 |
| Furniture and fixtures | 37,966 | - | - | 37,966 |
| Vehicles | 564,935 | 44,785 | (29,342) | 580,378 |
| Infrastructure | 5,676,063 | 54,145 | - | 5,730,208 |
| Total capital assets, being depreciated | <u>7,632,889</u> | <u>132,277</u> | <u>(41,194)</u> | <u>7,723,972</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (352,217) | (26,597) | - | (378,814) |
| Other improvement | (152,206) | (10,569) | - | (162,775) |
| Machinery and equipment | (281,421) | (23,792) | 9,482 | (295,731) |
| Furniture and fixtures | (27,950) | (2,079) | - | (30,029) |
| Vehicles | (439,597) | (48,682) | 29,342 | (458,937) |
| Infrastructure | (1,887,421) | (300,025) | - | (2,187,446) |
| Total accumulated depreciation | <u>(3,140,812)</u> | <u>(411,744)</u> | <u>38,824</u> | <u>(3,513,732)</u> |
| Capital Assets being depreciated, net | <u>4,492,077</u> | <u>(279,467)</u> | <u>(2,370)</u> | <u>4,210,240</u> |
| Governmental activities capital assets, net | <u>\$ 5,082,127</u> | <u>\$ (279,467)</u> | <u>\$ (2,370)</u> | <u>\$ 4,800,290</u> |

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 6 – CHANGES IN CAPITAL ASSETS (CONTINUED)

| | Beginning Balance | Additions | Transfers and Deletions | Ending Balance |
|---|----------------------|---------------------|----------------------------|----------------------|
| Business-type activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,551,289 | \$ - | \$ - | \$ 1,551,289 |
| Capital assets, being depreciated: | | | | |
| Buildings | 25,074 | 22,392 | - | 47,466 |
| Machinery and equipment | 988,861 | 77,785 | - | 1,066,646 |
| Vehicles | 173,248 | - | - | 173,248 |
| Sewer system | 11,805,159 | - | - | 11,805,159 |
| Water system | 6,044,498 | 48,870 | - | 6,093,368 |
| Total capital assets, being depreciated | <u>19,036,840</u> | <u>149,047</u> | <u>-</u> | <u>19,185,887</u> |
| Less accumulated depreciation: | | | | |
| Buildings | (17,709) | (1,301) | - | (19,010) |
| Machinery and equipment | (573,984) | (80,105) | - | (654,089) |
| Vehicles | (128,101) | (19,569) | - | (147,670) |
| Sewer system | (4,899,805) | (243,243) | - | (5,143,048) |
| Water system | (1,480,575) | (151,080) | - | (1,631,655) |
| Total accumulated depreciation | <u>(7,100,174)</u> | <u>(495,298)</u> | <u>-</u> | <u>(7,595,472)</u> |
| Capital Assets being depreciated, net | <u>11,936,666</u> | <u>(346,251)</u> | <u>-</u> | <u>11,590,415</u> |
| Business-type activities capital assets, net | <u>\$ 13,487,955</u> | <u>\$ (346,251)</u> | <u>\$ -</u> | <u>\$ 13,141,704</u> |

Depreciation Expense

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|--|-------------------|
| Governmental activities: | |
| General government | \$ 229,436 |
| Public safety | 21,405 |
| Public works | 142,428 |
| Parks and recreation | <u>18,475</u> |
| Total depreciation - governmental activities | <u>\$ 411,744</u> |
| Business-type activities: | |
| Water | \$ 182,002 |
| Sewer | <u>313,296</u> |
| Total depreciation - business-type activities | <u>\$ 495,298</u> |

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 7 – LONG-TERM DEBT

Business-Type Activities – Enterprise Funds

Loan Payable

During fiscal year 2004, the Town borrowed \$400,000 from the Maryland Department of the Environment to assist in the financing of the Route 30 Water Main project. The agreement requires annual payments of principal and interest of \$23,163 at an interest rate of 1%. The final payment is due on February 1, 2023.

The annual debt service requirements to maturity are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------|-------------------|------------------|-------------------|
| 2014 | \$ 20,969 | \$ 2,194 | \$ 23,163 |
| 2015 | 21,179 | 1,984 | 23,163 |
| 2016 | 21,391 | 1,772 | 23,163 |
| 2017 | 21,605 | 1,558 | 23,163 |
| 2018 | 21,820 | 1,343 | 23,163 |
| 2019 - 2023 | 112,416 | 3,399 | 115,815 |
| Total | \$ 219,380 | \$ 12,250 | \$ 231,630 |

Changes in Long-Term Liabilities

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|-------------------|-----------------|------------------|-------------------|---------------------|
| Government activities | | | | | |
| Long-term liabilities: | | | | | |
| Compensated absences | \$ 47,892 | \$ 6,111 | \$ - | \$ 54,003 | \$ 28,191 |
| Business-type activities | | | | | |
| Loan payable | \$ 240,141 | \$ - | \$ 20,761 | \$ 219,380 | \$ 20,969 |
| Compensated absences | 33,714 | 6,437 | - | 40,151 | 20,695 |
| Business-type activities long-term liabilities | \$ 273,855 | \$ 6,437 | \$ 20,761 | \$ 259,531 | \$ 41,664 |

NOTE 8 – NET POSITION – PROPRIETARY FUNDS

Restricted net position at June 30, 2013 as follows:

| | Funds | | Total |
|------------------|--------------|--------------|--------------|
| | Water | Sewer | |
| Purpose: | | | |
| Capital projects | \$ 2,206,648 | \$ 1,967,179 | \$ 4,173,827 |

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 8 – NET POSITION – PROPRIETARY FUNDS (CONTINUED)

The restriction of net position in the enterprise fund was established by an ordinance adopted by the Mayor and Town Council. It provides that all sanitary sewer capital connection charges shall be used for the construction, extension, improvement and maintenance of the sanitary system and wastewater treatment plant.

NOTE 9 – PENSION PLAN

The employees of the Town are covered by the State Retirement and Pension System of Maryland which is a cost sharing employer public employee retirement system (the State System). Most Town employees participate in the State System. The State System prepares a Comprehensive Annual Financial Report, which can be obtained from the State Retirement and Pension Systems of Maryland at 120 East Baltimore Street, Baltimore, Maryland 21202.

Plan Description

The State System, which is administered in accordance with Article 73B of the Annotated Code of Maryland, consists of the several plans which are managed by the Board of Trustees for the State System. All State employees and employees of the participating entities are eligible for coverage by the plans. The State System provides retirement, death, and disability benefits in accordance with State statutes.

Funding Policy

The Town's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the State System, all benefits of the State System are funded in advance. The entry age normal cost method is the actuarial cost method used. Both the Town and covered employees are required by State statute to contribute to the State System. The employees contribute 2% to 7% of compensation, as defined, depending on the participant's plan.

The contribution requirements of the State System members, as well as the State and participating governmental employees are established and may be amended by the Board of Trustees for the State System. Benefits are provided in accordance with State statutes.

The Town made its share of the required contributions during the years ended June 30, 2013, 2012, and 2011 of \$74,464, \$90,218, and \$95,370, respectively.

The contributions are sufficient to fund normal costs and amortize the unfunded actuarial accrued liability over a 40-year period (as provided by law) from July 1, 1980.

NOTE 10 – OTHER INFORMATION

Risk Management

The Town is exposed to various risks of loss related to torts; test of, damage to, and destruction of assets; errors and omissions; employee health and accident; and natural disasters. The Town purchases commercial insurance to protect its interest in its property and equipment, insurance against employee dishonesty and liability protection. Settled claims have not exceeded these coverage's for the past three fiscal years.

This information is an integral part of the accompanying financial statements.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF MANCHESTER, MARYLAND
SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
GENERAL FUND
(NON-GAAP BUDGETARY BASIS)
Year Ended June 30, 2013

| | Final Budget | Actual | Variance Positive (Negative) |
|---|--------------|------------|------------------------------------|
| REVENUES | | | |
| Taxes | | | |
| Local property taxes: | | | |
| Real property | \$ 935,613 | \$ 949,379 | \$ 13,766 |
| Personal property | 800 | 314 | (486) |
| Railroads and public utilities | 17,000 | 17,372 | 372 |
| Ordinary business corporations | 12,000 | 7,810 | (4,190) |
| Penalties and interest - delinquent taxes | 3,200 | 4,350 | 1,150 |
| Net property taxes | 968,613 | 979,225 | 10,612 |
| Local income taxes | 390,000 | 469,607 | 79,607 |
| State shared taxes: | | | |
| Alcoholic beverages | 550 | 588 | 38 |
| Admission | 16,000 | 11,990 | (4,010) |
| Highway | 40,272 | 39,520 | (752) |
| Total state shared taxes | 56,822 | 52,098 | (4,724) |
| Total taxes | 1,415,435 | 1,500,930 | 85,495 |
| Licenses and Permits | | | |
| Traders | 1,500 | 6,514 | 5,014 |
| Building permits | 6,500 | 26,859 | 20,359 |
| Rental housing | 200 | 140 | (60) |
| Zoning fees | 500 | 810 | 310 |
| Total licenses and permits | 8,700 | 34,323 | 25,623 |
| Intergovernmental | | | |
| Grants from other governments | | | |
| Police protection | 25,796 | 29,973 | 4,177 |
| Program open space | 13,000 | 13,000 | - |
| Grants from county government: | | | |
| State road grant | 3,680 | 3,680 | - |
| Financial corporations | 655 | 655 | - |
| Planning functions | 259,091 | 259,091 | - |
| Total intergovernmental | 302,222 | 306,399 | 4,177 |
| Fines and Forfeitures | | | |
| Court | - | 580 | 580 |
| Service Charges | | | |
| Public safety charges: | | | |
| Safety service fee | 5,250 | 21,700 | 16,450 |
| Recreation charges: | | | |
| Park service fee | 3,000 | 12,400 | 9,400 |
| Total service charges | 8,250 | 34,100 | 25,850 |
| Rents and Concessions | | | |
| Rents and concessions | 36,000 | 36,000 | |
| Cable TV franchise fees | 28,000 | 33,464 | 5,464 |
| Recreation charges: | | | |
| Rentals | 7,500 | 9,155 | 1,655 |
| Public safety charges: | | | |
| Police fines/fees | 300 | - | (300) |
| Total rent and concessions | 71,800 | 78,619 | 6,819 |
| Miscellaneous Revenue | | | |
| Interest | 8,500 | 9,379 | 879 |
| Other | 1,000 | 21,892 | 20,892 |
| Total miscellaneous revenue | 9,500 | 31,271 | 21,771 |
| Total Revenues | 1,815,907 | 1,986,222 | 170,315 |

TOWN OF MANCHESTER, MARYLAND
SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
GENERAL FUND
(NON-GAAP BUDGETARY BASIS)
Year Ended June 30, 2013
(Continued)

| | Final Budget | Actual | Variance Positive (Negative) |
|--|--------------|----------|------------------------------------|
| EXPENDITURES | | | |
| General Government | | | |
| Legislative: | | | |
| <u>Council</u> | | | |
| Salaries | \$ 6,000 | \$ 6,000 | \$ - |
| Operating expenses | 20,556 | 22,978 | (2,422) |
| <u>Administration</u> | | | |
| Salary | 78,724 | 79,480 | (756) |
| Operating expenses | 38,315 | 33,873 | 4,442 |
| Capital outlay | 29,000 | - | 29,000 |
| Executive: | | | |
| <u>Mayor</u> | | | |
| Salary | 4,800 | 4,800 | - |
| Financial administration: | | | |
| <u>Independent Accounting and Auditing</u> | | | |
| Operating expenses | 24,000 | 25,000 | (1,000) |
| Law: | | | |
| <u>Legal Counsel</u> | | | |
| Operating expenses | 9,000 | 6,359 | 2,641 |
| Planning and zoning: | | | |
| <u>Planning Commission</u> | | | |
| Salaries | 46,235 | 46,386 | (151) |
| Operating expenses | 13,200 | 12,385 | 815 |
| Capital outlay | - | - | - |
| General services: | | | |
| <u>Municipal Building</u> | | | |
| Operating expenses | - | - | - |
| <u>Postal Park</u> | | | |
| Operating expenses | 12,150 | 1,273 | 10,877 |
| <u>Data Processing</u> | | | |
| Computer operating expenses | 8,000 | 8,615 | (615) |
| <u>Other General Services</u> | | | |
| Historical Association | 1,000 | 322 | 678 |
| Liability insurance | 11,000 | 10,060 | 940 |
| Total general government | 301,980 | 257,531 | 44,449 |
| Public Safety | | | |
| Police Department: | | | |
| <u>Patrol and Investigation</u> | | | |
| Salaries | 319,599 | 264,716 | 54,883 |
| Operating expenses | 77,580 | 87,140 | (9,560) |
| Capital outlay | - | - | - |
| Fire Department: | | | |
| <u>Volunteer Company</u> | | | |
| Operating expenses | 23,892 | 22,392 | 1,500 |
| Total public safety | 421,071 | 374,248 | 46,823 |

TOWN OF MANCHESTER, MARYLAND
SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL
GENERAL FUND
(NON-GAAP BUDGETARY BASIS)
Year Ended June 30, 2013
(Continued)

| | Final Budget | Actual | Variance Positive (Negative) |
|---|--------------|------------|---------------------------------|
| EXPENDITURES (Continued) | | | |
| Public Works | | | |
| Highways and street: | | | |
| Streets, Roadways and Alleys: | | | |
| Salaries | \$ 127,656 | \$ 127,084 | \$ 572 |
| Operating expenses | 61,250 | 67,009 | (5,759) |
| Capital outlay | 278,762 | 112,215 | 166,547 |
| Snow and Ice Removal: | | | |
| Salaries | 15,000 | 5,661 | 9,339 |
| Operating expenses | 21,000 | 17,557 | 3,443 |
| Street Lighting: | | | |
| Operating expenses | 36,000 | 30,628 | 5,372 |
| Stormwater Management: | | | |
| Operating expenses | 35,000 | 464 | 34,536 |
| Sanitation and Waste Removal: | | | |
| Waste - collection and disposal: | | | |
| Operating expenses | 268,067 | 238,837 | 29,230 |
| Total public works | 842,735 | 599,455 | 243,280 |
| Recreation | | | |
| Parks: | | | |
| Salaries | 83,761 | 82,319 | 1,442 |
| Operating expenses | 45,810 | 22,477 | 23,333 |
| Capital outlay | 16,000 | 7,972 | 8,028 |
| Total recreation | 145,571 | 112,768 | 32,803 |
| Miscellaneous | | | |
| Workmen's compensation insurance | 68,929 | 60,992 | 7,937 |
| Health and accident insurance | 114,441 | 98,420 | 16,021 |
| Social Security contributions | 52,155 | 45,380 | 6,775 |
| Pension plan expense | 49,880 | 44,164 | 5,716 |
| Unemployment insurance | - | 1,829 | (1,829) |
| Miscellaneous | - | 2,347 | (2,347) |
| Total miscellaneous | 285,405 | 253,132 | 32,273 |
| Total Expenditures | 1,996,762 | 1,597,134 | 399,628 |
| Excess (deficiency) of expenditures over revenues before other financing sources | (180,855) | 389,088 | 569,943 |
| OTHER FINANCING SOURCES | | | |
| Use of prior year fund balance | 180,855 | - | (180,855) |
| NET CHANGE IN FUND BALANCE | \$ - | \$ 389,088 | \$ 389,088 |

TOWN OF MANCHESTER, MARYLAND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL – ENTERPRISE FUNDS
(NON-GAAP BUDGETARY BASIS)
Year Ended June 30, 2013

| | Water Fund | | | Sewer Fund | | |
|---|-----------------|-------------------|------------------------------------|------------------|------------------|------------------------------------|
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| OPERATING REVENUES | | | | | | |
| Charges for services | \$ 275,000 | \$ 294,614 | \$ 19,614 | \$ 484,000 | \$ 470,850 | \$ (13,150) |
| Unit charges | 118,800 | 123,421 | 4,621 | 137,600 | 143,582 | 5,982 |
| Excise taxes | 38,250 | 132,600 | 94,350 | 33,750 | 117,000 | 83,250 |
| Area service charges | 37,500 | 155,000 | 117,500 | 37,500 | 155,000 | 117,500 |
| Miscellaneous | 79,485 | 100,202 | 20,717 | 12,400 | 17,897 | 5,497 |
| Total operating revenues | 549,035 | 805,837 | 256,802 | 705,250 | 904,329 | 199,079 |
| OPERATING EXPENSES | | | | | | |
| Salaries and fringe benefits | 271,371 | 279,758 | (8,387) | 267,385 | 271,106 | (3,721) |
| Operating expenses | 240,164 | 173,839 | 66,325 | 496,365 | 287,745 | 208,620 |
| Capital outlay | 54,600 | 76,697 | (22,097) | 108,500 | 72,350 | 36,150 |
| Total operating expenses | 566,135 | 530,294 | 35,841 | 872,250 | 631,201 | 241,049 |
| Operating income (loss) | (17,100) | 275,543 | 292,643 | (167,000) | 273,128 | 440,128 |
| NON-OPERATING REVENUES (EXPENSES) | | | | | | |
| Payments on notes | - | (20,761) | (20,761) | - | - | - |
| Interest revenue | 5,000 | 7,338 | 2,338 | 5,500 | 6,999 | 1,499 |
| Debt service interest | - | (2,297) | (2,297) | - | - | - |
| Bay restoration fees revenue | - | - | - | 96,000 | 93,441 | (2,559) |
| Bay restoration fees remitted to the State | - | - | - | - | (93,441) | (93,441) |
| Withdrawal from Sewer/Water Area Service Savings | 12,100 | - | (12,100) | 65,500 | - | (65,500) |
| Total non-operating income | 17,100 | (15,720) | (32,820) | 167,000 | 6,999 | (160,001) |
| NET INCOME - BUDGETARY BASIS | \$ - | 259,823 | \$ 259,823 | \$ - | 280,127 | \$ 280,127 |
| Capital outlay | | 76,697 | | | 72,350 | |
| Capital contributions | | - | | | - | |
| Payments on notes | | 20,761 | | | - | |
| Depreciation expense | | (182,002) | | | (313,296) | |
| NET INCOME - GAAP BASIS | | \$ 175,279 | | | \$ 39,181 | |



TOWN OF MANCHESTER

(410) 239-3200

FAX (410) 239-6430

RYAN M. WARNER, MAYOR

October 30, 2013

CliftonLarsonAllen LLP
9515 Deereco Road, Suite 500
Timonium, Maryland 21093

This representation letter is provided in connection with your audit of the financial statements of the Town of Manchester, Maryland, which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the general fund budgetary comparison, each as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of October 30, 2013, the following representations made to you during your audit.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 3, 2013, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- We acknowledge and have fulfilled our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions used by us in making accounting estimates are reasonable.
- Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.
- Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable

from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

- No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
- We have not identified or been notified of any uncorrected financial statement misstatements. In addition, you have proposed adjusting journal entries that have been posted to the entity's accounts. We have reviewed and approved those adjusting journal entries and understand the nature of the changes and their impact on the financial statements. We are in agreement with those adjustments and accept responsibility for them.
- We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.
- Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.
- We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund balance.
- Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility. Impairment loss and insurance recoveries have been properly recorded, if applicable.
- Participation in a public entity risk pool has been properly reported and disclosed in the financial statements.
- We do not offer postemployment benefits to our employees which would require an adjustment to, or disclosure in, the financial statements in accordance with GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* or GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.
- We are not aware of any pollution remediation obligations which would require an adjustment to, or disclosure in, the financial statements in accordance with GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.
- We are not aware of any intangible assets which would require an adjustment to or disclosure in the financial statements in accordance with GASB 51, *Accounting and Reporting for Intangible Assets*.
- We do not have any financing arrangements that use derivatives in accordance with GASB 53, *Accounting and Reporting for Derivative Instruments*.

- We have implemented GASB Statement No. 63, *Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and made all adjustments to the financial statements and footnotes, where applicable as required under the Statement. As of June 30, 2013, we did not have any items that would be required to be recorded as deferred inflows/outflows of financial resources under GASB Statement No. 63.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
 - Additional information that you have requested from us for the purpose of the audit.
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- There have been no communication from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others when the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, grantors, regulators, or others.
- We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts and grant agreements, or abuse whose effects should be considered when preparing financial statements.

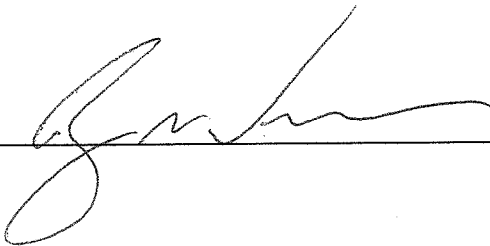
- We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments, that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- We have reviewed and approved all adjustments and corrections made to the financial statements and acknowledge that the adjustments are complete and accurate.
- The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
- We have a process to track the status of audit findings and recommendations.
- We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Town of Manchester, Maryland, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- The entity has complied with all aspects of contractual or grant agreements that would have a material effect on the financial statements in the event of noncompliance.
- We are responsible for determining whether we have received, expended, or otherwise been the beneficiary of any federal awards during the period of this audit. No federal award, received directly from federal agencies or indirectly as a subrecipient, was expended in an amount that cumulatively totals from all sources \$500,000 or more. For this representation, "award" means financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, user grants, or contracts used to buy goods or services from vendors.
- We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

- The financial statements properly classify all funds and activities.
- All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- Provisions for uncollectible receivables have been properly identified and recorded.
- Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- Fund balance classifications for governmental funds are properly recorded in accordance with GASB 54.
- The management's discussion, which is required supplementary information (RSI), is measured and presented within prescribed guidelines.
- We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
- We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- We acknowledge our responsibility for presenting the Schedules of Revenues and Expenditures – Budget and Actual (the supplementary information) in accordance with U.S. GAAP, and we believe the

supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditors' report thereon.

- As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual who possesses suitable skill, knowledge, and/or experience to understand and oversee your services; have made all management judgments and decisions; and have assumed all management responsibilities. We have evaluated the adequacy and results of the service. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- There were no transfers, restrictions, commitment or assignment of fund equity or interfund borrowings that were not properly authorized and approved, or uncollectible interfund loans that have not been properly reflected in the financial statements or disclosed to you.

Signature: _____



Title: Mayor

Signature: _____



Title: Director of Finance



CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

To the Honorable and
Members of the Town Council
Town of Manchester, Maryland

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund and the general fund budgetary comparison of Town of Manchester, Maryland (the Town) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the entity's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Material weaknesses

The following material weakness was identified and communicated in a prior period; remedial action has not yet been taken:

PREPARATION OF FINANCIAL STATEMENTS

The Mayor, Town Council, and management share the ultimate responsibility for the Town's internal control system. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced.

The Town engages CliftonLarsonAllen to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CliftonLarsonAllen cannot be considered part of the Town's internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the Town has implemented a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be



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performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles (GAAP) and knowledge of the Town's activities and operations. Currently, the Town's personnel do not have sufficient financial reporting and accounting knowledge on a GAAP basis to perform a review of the Town's financial statements and related disclosures to provide a high level of assurance that potential material omissions or other errors would be identified and corrected. In the current fiscal year, there were material adjustments that were made, in order to correct the Town's financial statements and record revenue on a GAAP basis.

Significant deficiencies

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The following significant deficiencies were identified and communicated in a prior period; remedial action has not yet been taken:

SEGREGATION OF DUTIES

The limited number of employees makes it difficult to achieve internal control through the segregation of employee duties. The concentration of closely related duties and responsibilities such as recording and processing cash receipts, and preparing checks, journal entries and general financial information by one individual make it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability.

We realize that with a limited number of office employees, segregation of duties is difficult. The Town has implemented controls that utilize members of the Town Council or Mayor to perform functions such as review of monthly bank reconciliations and bank statements. In addition, vendor invoices are reviewed by a member of the Town Council and checks are signed by either the Mayor or a member of the Council.

Other deficiencies in internal control and other matters

During our audit, we became aware of other deficiencies in internal control and other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. While the nature and magnitude of the other deficiencies in internal control were not considered important enough to merit the attention of the Mayor and Town Council, they are considered of sufficient importance to merit management's attention and are included herein to provide a single, comprehensive communication for both those charged with governance and management.

INFORMATION TECHNOLOGY (IT) POLICIES AND PROCEDURES

During the course of our audit we noted that the Town has not developed formal policies and procedures to direct the IT activities of the organization. We recommend that the Town establish and document formal policies and procedures over the IT environment.

SYSTEM ACCESS

During the course of our audit we noted that access to all of the Town's computer systems and programs is not restricted. We recommend that access to computer systems and programs be limited based upon job responsibility.

APPLICATION ACCESS

During the course of our audit we noted that access to the computer systems are not controlled by complex password requirements. We recommend that the Town establish and approve policies to require that application access passwords contain complexity requirements.

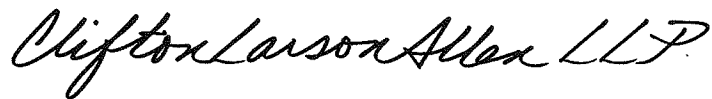
IT VENDOR MANAGEMENT

During the course of our audit we noted that independent reports on the controls at third-party service providers are not obtained and reviewed. We recommend that the Town establish and approve policies to obtain and review these reports from all third-party IT service providers.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

* * *

This communication is intended solely for the information and use of management, the Mayor and Town Council, and others within the entity, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Baltimore, Maryland
October 30, 2013